

NORTH IOWA AREA COUNCIL OF GOVERNMENTS

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

- Prepared By -

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NORTH IOWA AREA COUNCIL OF GOVERNMENTS

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>County</u>	<u>Term Expires</u>
Jay Urdahl	Member	Cerro Gordo	Indefinite
John Drury	Member	Cerro Gordo	Indefinite
David Vikturek	Treasurer	Cerro Gordo	Indefinite
James Erb	Secretary	Floyd	Indefinite
J.R. Ackley	Member	Floyd	Indefinite
Mark Kuhn	Member	Floyd	Indefinite
Jeanie Ahrens	Member	Franklin	Indefinite
Corey Eberling	Member	Franklin	Indefinite
Kent Morton	Member	Franklin	Indefinite
Ted Hall	Member	Hancock	Indefinite
Terry Johnson	Member	Hancock	Indefinite
Kathy Smith	Member	Hancock	Indefinite
Harley Kohlhaas	Member	Kossuth	Indefinite
Don McGregor	Member	Kossuth	Indefinite
Vicki Mallory	Member	Kossuth	Indefinite
Marilyn Johannis	Member	Mitchell	Indefinite
Rick Bodensteiner	Member	Mitchell	Indefinite
Stan Walk	Vice-Chair	Mitchell	Indefinite
Vickie Zobel	Member	Winnebago	Indefinite
Mike Stensrud	Member	Winnebago	Indefinite
Terry Gasper	Member	Winnebago	Indefinite
Dennis May	Chair	Worth	Indefinite
Terry Steinmetz	Member	Worth	Indefinite
Rick Scholbrock	Member	Worth	Indefinite
Ned Wicker	Member	At-Large	Indefinite



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Iowa Area Council of Governments
Mason City, IA 50401

Report on the Financial Statements

I have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the North Iowa Area Council of Governments (NIACOG), as of and for the year ended June 30, 2013, and the related Notes to the Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NIACOG as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquires of management about methods of preparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise NIACOG's basic financial statements. The supplementary information included in Schedules 1 and 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated November 7, 2013 on my consideration of NIACOG's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering NIACOG's internal control over financial reporting and compliance.



Charles City, Iowa
November 7, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Iowa Area Council of Governments (NIACOG) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. I encourage readers to consider this information in conjunction with NIACOG's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- NIACOG's operating revenues increased 4%, or \$193,986, from fiscal 2012 to fiscal 2013, due to an increase in grants to acquire capital assets compared to the prior year.
- NIACOG's operating expenses were 9%, or \$512,489 lower in fiscal 2013 than in fiscal 2012, due mainly to decreased costs associated with CDBG award payments.
- NIACOG's net position increased 3%, or \$156,922, from June 30, 2012 to June 30, 2013.

USING THIS ANNUAL REPORT

The North Iowa Area Council of Governments is a 28E Organization and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to NIACOG's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of NIACOG's financial activities.

The Statement of Net Position presents information on NIACOG's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of NIACOG is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on operating revenues and expenses, non-operating revenues and expenses and whether NIACOG's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in NIACOG's cash and cash equivalents during the year. This information can assist the use of the report in determining how NIACOG financed its activities and how it met its cash requirements.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Supplementary Information provides detailed information about the grant activity. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

FINANCIAL ANALYSIS OF THE AGENCY

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of NIACOG's financial position. NIACOG's net position for fiscal 2013 totaled approximately \$5,382,498. This compares to approximately \$5,225,576 at the end of fiscal 2012. A summary of NIACOG's net position is presented below.

Net Position		June 30,	
		2013	2012
Current assets		\$1,437,072	\$1,636,620
Non-current assets		416,895	125,687
Capital assets at cost, less accumulated depreciation		3,942,463	3,928,817
Total assets		<u>\$5,796,430</u>	<u>\$5,691,124</u>
Current liabilities		<u>\$ 413,932</u>	<u>\$ 465,548</u>
Net position:			
Reserved		\$1,152,526	\$1,094,466
Unreserved		<u>4,229,972</u>	<u>4,131,110</u>
Total net position		<u>\$5,382,498</u>	<u>\$5,225,576</u>

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues are received from federal grants, state grants, and other local sources. Operating expenses are to operate the transit systems and programs. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012 is presented below:

Changes in Net Position		Year ended June 30,	
		2013	2012
Operating Revenues			
Grants		\$3,429,676	\$3,041,370
Program reimbursements and other local sources		<u>1,819,086</u>	<u>2,013,406</u>
Total operating revenues		<u>\$5,248,762</u>	<u>\$5,054,776</u>
Operating Expenses		<u>5,112,623</u>	<u>5,625,112</u>
Operating income (deficit)		\$ 136,139	\$ (570,336)
Non-operating revenues, net		<u>20,783</u>	<u>25,188</u>
Changes in net position		\$ 156,922	\$ (545,148)
Net position beginning of year		<u>5,225,576</u>	<u>5,770,724</u>
Net position end of year		<u>\$5,382,498</u>	<u>\$5,225,576</u>

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase in the net position at the end of the fiscal year.

- Net position for the year increased \$156,922, mainly due to an increase in notes receivable.
- NCRERC expenses for the year were \$101,045 and revenues were \$90,744. Future revenues and expenses will vary depending on incident response activity.
- State and Federal Transit Operating Assistance for the year totaled \$1,188,164. These same funding sources for the previous fiscal year totaled \$1,087,841. The increase was in both Federal and State Transit Assistance.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by the operating activities includes federal and state support, program reimbursements and other revenue, reduced by payments to employees and to suppliers. Cash used by capital and related financing activities includes principal payments and the purchase of capital assets. Cash provided by investing activities includes interest income.

CAPITAL ASSETS

At June 30, 2013, NIACOG had approximately \$3,942,463 invested in capital assets, net of accumulated depreciation of approximately \$4,900,414. Depreciation expense totaled \$759,350 for fiscal year 2013. More detailed information about NIACOG's capital assets is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

In the upcoming year, NIACOG will continue to maximize efficiencies related to providing transit services for Region 2. Under the terms of their 28E agreement, NIACOG and the City of Mason City will continue to share in ongoing costs to operate and maintain the facility.

In the fall of 2008, NIACOG was selected to administer disaster assistance funds under the State and Federal Jumpstart programs for an expanded 22 county region. State and Federal grant revenue and related administrative expenses decreased in 2013 as many of these programs closed out. Program activity related to newer disaster assistance grants from fiscal 2010 is expected to continue into fiscal year 2015. For fiscal year 2013, NIACOG has also continued its involvement in the administration of various grants for urban revitalization, housing rehabilitation and economic development throughout the region.

CONTACTING NIACOG'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of NIACOG's finances and to show NIACOG's accountability for the money it receives. If you have questions about this report or need additional financial information, contact North Iowa Area Council of Governments, 525 6th Street SW, Mason City, IA 50401.

Basic Financial Statements

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 746,908	\$ 59,464	\$ 806,372
Accounts receivable	548,552	-	548,552
Prepaid expenses	11,422	-	11,422
Notes receivable	69,550	-	69,550
Other receivables	1,176	-	1,176
Total current assets	<u>\$ 1,377,608</u>	<u>\$ 59,464</u>	<u>\$1,437,072</u>
Noncurrent assets:			
Notes receivable	<u>\$ 416,895</u>	<u>\$ -</u>	<u>\$ 416,895</u>
Fixed assets:			
Land	\$ 157,711	\$ -	\$ 157,711
Building	2,640,644	-	2,640,644
Equipment	379,817	108,133	487,950
Vehicles - unrestricted	1,106,099	62,516	1,168,615
Vehicles - restricted	4,387,957	-	4,387,957
Total	<u>\$ 8,672,228</u>	<u>\$ 170,649</u>	<u>\$8,842,877</u>
Less accumulated depreciation	<u>(4,758,384)</u>	<u>(142,030)</u>	<u>(4,900,414)</u>
Net fixed assets	<u>\$ 3,913,844</u>	<u>\$ 28,619</u>	<u>\$3,942,463</u>
Total assets	<u>\$ 5,708,347</u>	<u>\$ 88,083</u>	<u>\$5,796,430</u>
LIABILITIES:			
Current liabilities:			
Trade accounts payable	\$ 141,698	\$ -	\$ 141,698
Accrued benefits payable	60,340	-	60,340
Line of credit	<u>211,894</u>	<u>-</u>	<u>211,894</u>
Total current liabilities	<u>\$ 413,932</u>	<u>\$ -</u>	<u>\$ 413,932</u>
NET POSITION:			
Reserved (Note 2)	\$ 1,152,526	\$ -	\$1,152,526
Unreserved	<u>4,141,889</u>	<u>88,083</u>	<u>4,229,972</u>
Total net position	<u>\$ 5,294,415</u>	<u>\$ 88,083</u>	<u>\$5,382,498</u>

See Notes to Financial Statements.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
OPERATING REVENUES:			
Federal funds	\$2,928,711	\$ 2,300	\$2,931,011
State funds	498,665	-	498,665
Local funds	1,730,642	88,444	1,819,086
Total operating revenues	<u>\$5,158,018</u>	<u>\$ 90,744</u>	<u>\$5,248,762</u>
OPERATING EXPENSES:			
Salaries	\$1,078,401	\$ -	\$1,078,401
Employee benefits	301,059	-	301,059
Contracted services	80,321	12,000	92,321
Telephone	4,501	-	4,501
Printing	17,964	-	17,964
Advertising	224	-	224
Supplies	22,609	-	22,609
Travel	12,784	-	12,784
Postage	5,733	-	5,733
Conferences	1,586	601	2,187
Dues and memberships	8,999	100	9,099
Professional fees	9,992	-	9,992
Miscellaneous	10,708	1,940	12,648
Insurance	73,355	8,242	81,597
Repairs and maintenance	47,161	349	47,510
Utilities	28,164	-	28,164
Equipment	-	13,586	13,586
Depreciation	748,752	10,598	759,350
Transit provider payments	1,352,917	-	1,352,917
Program awards	935,893	-	935,893
Services	-	40,714	40,714
Training	-	5,491	5,491
Physicals	-	7,424	7,424
Fuels and lubricants	130,078	-	130,078
Materials and supplies	140,377	-	140,377
Total operating expenses	<u>\$5,011,578</u>	<u>\$ 101,045</u>	<u>\$5,112,623</u>
Operating Income	<u>\$ 146,440</u>	<u>\$ (10,301)</u>	<u>\$ 136,139</u>
Non-operating revenues (expenses):			
Interest income	\$ 8,134	\$ 500	\$ 8,634
Interest expense	(5,429)	-	(5,429)
Gain on sale of equipment	17,578	-	17,578
Net non-operating revenues (expenses)	<u>\$ 20,283</u>	<u>\$ 500</u>	<u>\$ 20,783</u>
Change in net position	\$ 166,723	\$ (9,801)	\$ 156,922
Net position beginning of year	<u>5,127,692</u>	<u>97,884</u>	<u>5,225,576</u>
Net position end of year	<u>\$5,294,415</u>	<u>\$ 88,083</u>	<u>\$5,382,498</u>

See Notes to Financial Statements.

**NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013**

	<u>NIACOG</u>	<u>NCRERC</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from federal operating grants	\$ 2,447,136	\$ 2,300	\$ 2,449,436
Cash received from state operating grants	457,048	-	457,048
Cash received from program reimbursements	1,956,767	88,444	2,045,211
Cash paid for salaries and benefits	(1,379,460)	-	(1,379,460)
Cash paid for other suppliers of goods and services	(2,797,484)	(91,247)	(2,888,731)
Net cash provided (used) by operating activities	<u>\$ 684,007</u>	<u>\$ (503)</u>	<u>\$ 683,504</u>
Cash flows from capital and related financing activities:			
Net acquisition of fixed assets	\$ (766,393)	\$ (6,603)	\$ (772,996)
Cash received from asset sales	17,578	-	17,578
Cash received from federal capital grants	572,700	-	572,700
Cash received from short term debt funds	619,799	-	619,799
Cash used to repay short-term debt	(712,293)	-	(712,293)
Net cash (used) by capital and related financing activities	<u>\$ (268,609)</u>	<u>\$ (6,603)</u>	<u>\$ (275,212)</u>
Cash flows from investing activities:			
Interest received	\$ 8,134	\$ 500	\$ 8,634
Interest paid	(5,429)	-	(5,429)
Cash advanced for notes receivable	(357,125)	-	(357,125)
Cash received from notes receivable	26,676	-	26,676
Net cash provided (used) by investing activities	<u>\$ (327,744)</u>	<u>\$ 500</u>	<u>\$ (327,244)</u>
Net increase (decrease) in cash	\$ 87,654	\$ (6,606)	\$ 81,048
Cash and cash equivalents beginning of year	<u>659,254</u>	<u>66,070</u>	<u>725,324</u>
Cash and cash equivalents end of year	<u>\$ 746,908</u>	<u>\$ 59,464</u>	<u>\$ 806,372</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 146,440	\$ (10,301)	\$ 136,139
Adjustments for long-term non-cash items:			
Depreciation	748,752	10,598	759,350
Revenues and expenses not classified as operating	(572,700)	-	(572,700)
Changes in assets and liabilities:			
(Increase) in prepaid insurance	(846)	-	(846)
(Increase) decrease in accounts receivable	320,919	-	320,919
(Increase) in other receivables	(236)	-	(236)
Increase (decrease) in accounts payable	106,864	(800)	106,064
(Decrease) in payroll taxes	(20,136)	-	(20,136)
(Decrease) in unearned revenue	(45,050)	-	(45,050)
Net cash provided (used) by operating activities	<u>\$ 684,007</u>	<u>\$ (503)</u>	<u>\$ 683,504</u>
Supplemental disclosure of cash flow information:			
Interest paid	<u>\$ 5,429</u>	<u>\$ -</u>	<u>\$ 5,429</u>

See Notes to Financial Statements.

**NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

(1) Organization

The North Iowa Area Council of Governments (NIACOG) is an Inter- Governmental Council, established in accordance with provisions of Chapter 28E of the State Code of Iowa (Inter-Governmental Cooperation Agreement). The area of jurisdiction is Region 2 which includes Cerro Gordo, Floyd, Hancock, Worth, Kossuth, Mitchell, Franklin, and Winnebago counties. NIACOG's powers and duties are those authorized by Chapter 28H of the State of Iowa (Councils of Governments). NIACOG provides professional and technical services on a regional basis to maintain area-wide certification for state and federal grant and aid projects. It also provides planning advisory services and assistance in preparing special planning documents and applications to its members. NIACOG also provides transportation services to the elderly, disabled and rural areas through the Region Two Transit System. In performing its duties, NIACOG may contract with and expend funds from federal, state, and local agencies, public or semi-public agencies and private individuals and Corporations.

Reporting Entity

For financial reporting purposes, NIACOG has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with NIACOG are such that exclusion would cause NIACOG's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of NIACOG to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on NIACOG. NIACOG has one component unit which meets the Governmental Accounting Standards Board criteria. The North Central Regional Emergency Response Commission (NCRERC) is a committee established under a 28E agreement with NIACOG. Its purpose is to implement joint and cooperative action in training and response activities of hazardous materials for Region 2.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accounts of NIACOG are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

(b) Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(2) Summary of Significant Accounting Policies - continued

NIACOG applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

NIACOG distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the NIACOG's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(c) Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash and Cash Equivalents - The cash balances are deposited in bank accounts. For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Notes Receivable - This account is utilized to record revolving loan funds loaned to eligible homeowners and businesses.

Capital Assets - Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by NIACOG as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$5,000
Building	5,000
Equipment	5,000
Vehicles	5,000

Capital assets of NIACOG are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful lives (In Years)</u>
Building	40
Improvements other than buildings	15
Equipment	5-10
Vehicles	5

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(2) **Summary of Significant Accounting Policies** - continued

Accrued Benefits Payable - Accrued benefits payable are earned vacation leave and compensatory time and have been accrued as liabilities on the statement of net assets. These current liabilities have been computed based on rates of pay in effect at June 30, 2013.

Reserved Net Position - Reserved net position represents the portion of federal participation in the purchase of transit vehicles and related equipment. Subsequent disposition of assets purchased with federal funds are subject to certain restrictions.

(3) **Cash and Investments**

NIACOG's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

NIACOG is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies, certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NIACOG and NCRERC had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk - NIACOG'S investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of NIACOG.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(4) Capital Assets

A summary of capital assets for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
NIACOG				
Land	\$ 157,711	\$ -	\$ -	\$ 157,711
Building	2,640,644	-	-	2,640,644
Equipment	379,817	-	-	379,817
Vehicles	4,999,969	766,393	272,306	5,494,056
Total	<u>\$8,178,141</u>	<u>\$ 766,393</u>	<u>\$272,306</u>	<u>\$8,672,228</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
NCRERC				
Equipment	\$ 101,530	\$ 6,603	\$ -	\$ 108,133
Vehicles	62,516	-	-	62,516
Total	<u>\$ 164,046</u>	<u>\$ 6,603</u>	<u>\$ -</u>	<u>\$ 170,649</u>

Depreciation activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
NIACOG				
Building	\$ 413,079	\$ 66,127	\$ -	\$ 479,206
Equipment	195,169	45,273	-	240,442
Vehicles	3,673,690	637,352	272,306	4,038,736
Total	<u>\$4,281,938</u>	<u>\$ 748,752</u>	<u>\$272,306</u>	<u>\$4,758,384</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
NCRERC				
Equipment	\$ 68,916	\$ 10,598	\$ -	\$ 79,514
Vehicles	62,516	-	-	62,516
Total	<u>\$ 131,432</u>	<u>\$ 10,598</u>	<u>\$ -</u>	<u>\$ 142,030</u>

(5) Pension and Retirement Benefits

NIACOG contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and NIACOG is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. NIACOG's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$91,188, \$83,176 and \$63,005, respectively, equal to the required contributions for each year.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(6) **Short-Term Notes Payable - Line of Credit**

The Agency has an unsecured line of credit agreement with a bank which provides it may borrow up to \$750,000 at a variable rate of interest. The line of credit is used for disaster assistance program expenditures.

Short-term notes payable activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of year	Advances Received	Advances Repaid	Balance End of year
Line of credit	<u>\$304,388</u>	<u>\$ 619,799</u>	<u>\$ 712,293</u>	<u>\$211,894</u>

(7) **Risk Management**

The Agency is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(7) Risk Management - continued

The Agency's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Agency's contributions to the Pool for the year ended June 30, 2013 were \$117,574.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Agency also carries commercial insurance purchased from other insurers for coverage associated with workers compensation coverage. The Agency assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Litigation

The Agency is subject to pending litigation seeking compensatory damages. The probability of loss, if any, is undeterminable.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
YEAR ENDED JUNE 30, 2013

	STA Operating Assistance	STA TTF	COG Assistance 2012-COG-01	IDED GIVF 10-OT-002
Operating Expenses:				
Contractual Services	\$ 418,191	\$ 2,036	\$ 10,294	\$ 45,050
Capital Outlay	-	-	-	-
Prior Year	-	574	-	14,950
Project Cost	\$ 418,191	\$ 2,610	\$ 10,294	\$ 60,000
Grant Participation in Project Cost	100%	80%	100%	100%
Percentage Participation	<u>\$ 418,191</u>	<u>\$ 2,088</u>	<u>\$ 10,294</u>	<u>\$ 60,000</u>
Contract Amount	<u>\$ 368,173</u>	<u>\$ 2,088</u>	<u>\$ 10,294</u>	<u>\$ 60,000</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$ 418,191	\$ 2,088	\$ 10,294	\$ 60,000
Less: Grant Payments received in current year	(418,191)	(2,088)	(10,294)	-
Less: Grant Payments received in prior year	-	-	-	(60,000)
Grant Receivable/(Payable) at June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(continued)

STA Transit Cares	STA STA-SPEC- 020-FY12	STA STA-SPEC- 020-FY13	Section 4 Capital 04-0117-020-12	Section 16 Contracted Serv #16-X002-020-13	FTA-Job Access REV Commute #37-X016-020-13
\$ 11,752	\$ 8,361	\$ 6,325	\$ -	\$ 531,812	\$ 30,972
-	-	-	690,000	-	-
4,330	2,749	-	-	-	-
\$ 16,082	\$ 11,110	\$ 6,325	\$ 690,000	\$ 531,812	\$ 30,972
100%	80%	80%	83%	80%	50%
<u>\$ 16,082</u>	<u>\$ 8,888</u>	<u>\$ 5,060</u>	<u>\$ 572,700</u>	<u>\$ 425,450</u>	<u>\$ 15,486</u>
<u>\$ 16,082</u>	<u>\$ 11,856</u>	<u>\$ 13,600</u>	<u>\$ 572,700</u>	<u>\$ 425,450</u>	<u>\$ 30,000</u>
\$ 16,082	\$ 8,888	\$ 5,060	\$ 572,700	\$ 425,450	\$ 15,486
(16,082)	(8,888)	(1,505)	(572,700)	(425,450)	(9,943)
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,543</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
YEAR ENDED JUNE 30, 2013

	Section 18 OP Deficit #18-0030- 020-12	Section 18 OP Deficit #18-0030- 020-13	Section 57 I.C. Shuttle #57-X008- 020-12	Section 57 Mobility MGR #57-X002-020-12
Operating Expenses:				
Contractual Services	\$ -	\$ 689,046	\$ 35,908	\$ 47,505
Capital Outlay	-	-	-	-
Prior Year	562,434	-	2,706	39,622
Project Cost	<u>\$ 562,434</u>	<u>\$ 689,046</u>	<u>\$ 38,614</u>	<u>\$ 87,127</u>
Grant Participation in Project Cost	50%	50%	50%	80%
Percentage Participation	<u>\$ 281,217</u>	<u>\$ 344,523</u>	<u>\$ 19,307</u>	<u>\$ 69,702</u>
Contract Amount	<u>\$ 281,217</u>	<u>\$ 344,523</u>	<u>\$ 22,464</u>	<u>\$ 96,861</u>
Permissible Grant (Lesser of Contract Amount or Percentage Participation)	\$ 281,217	\$ 344,523	\$ 19,307	\$ 69,702
Less: Grant Payments received in current year	(86,626)	(344,523)	(14,434)	(45,843)
Less: Grant Payments received in prior year	<u>(194,591)</u>	<u>-</u>	<u>-</u>	<u>(13,393)</u>
Grant Receivable/(Payable) at June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,873</u>	<u>\$ 10,466</u>

(continued)

SCHEDULE 1
(continued)

<u>12 RPA- 02</u>	<u>13-RPA 02</u>	<u>EDA 05-83- 04983-02</u>	<u>EDA 05-79- 04733</u>	<u>CDBG 08-DRH -002</u>	<u>CDBG 08-DRH -202</u>	<u>CDBG 08-DRB -208</u>	<u>HAZMAT HMEP</u>
\$ -	\$121,286	\$122,000	\$ 344,770	\$ 183,625	\$ 866,078	\$ 6,912	\$ 2,300
-	-	-	-	-	-	-	-
45,726	-	-	115,000	-	3,691,808	265,003	-
\$ 45,726	\$121,286	\$122,000	\$ 459,770	\$ 183,625	\$4,557,886	\$271,915	\$ 2,300
80%	80%	50%	87%	100%	100%	100%	100%
<u>\$ 36,581</u>	<u>\$ 97,029</u>	<u>\$ 61,000</u>	<u>\$ 400,000</u>	<u>\$ 183,625</u>	<u>\$4,557,886</u>	<u>\$271,915</u>	<u>\$ 2,300</u>
<u>\$ 103,562</u>	<u>\$123,658</u>	<u>\$ 61,000</u>	<u>\$ 400,000</u>	<u>2,891,900</u>	<u>\$6,619,430</u>	<u>\$300,000</u>	<u>\$ 2,300</u>
\$ 36,581	\$ 97,029	\$ 61,000	\$ 400,000	\$ 183,625	\$4,557,886	\$271,915	\$ 2,300
(18,423)	(68,639)	(61,000)	(299,950)	(73,710)	(982,998)	(15,597)	(2,300)
(18,158)	-	-	(100,050)	-	(3,362,994)	(256,318)	-
<u>\$ -</u>	<u>\$ 28,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,915</u>	<u>\$ 211,894</u>	<u>\$ -</u>	<u>\$ -</u>

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
STATEMENT OF SELECTED PROJECT COSTS AND COMPUTATION OF SELECTED PROJECT GRANTS
YEAR ENDED JUNE 30, 2013

	<u>Total</u>
Operating Expenses:	
Contractual Services	\$ 3,484,223
Capital Outlay	690,000
Prior Year	4,744,902
Project Cost	<u>\$ 8,919,125</u>
Grant Participation in	
Project Cost	
Percentage Participation	<u>\$ 7,859,324</u>
Contract Amount	<u>\$12,757,158</u>
Permissible Grant (Lesser	
of Contract Amount or	
Percentage Participation)	\$ 7,859,324
Less: Grant Payments	
received in current year	(3,479,184)
Less: Grant Payments	
received in prior year	<u>(4,005,504)</u>
Grant Receivable/(Payable)	
at June 30, 2013	<u>\$ 374,636</u>

See Accompanying Independent Auditor's Report.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>AGENCY PASS-THROUGH NUMBER</u>	<u>PROGRAM EXPENDITURES</u>
Direct:			
Department of Commerce:			
Economic Development Administration:			
Planning Grant	11.302	05-83-04983-02	\$ 61,000
Economic Adjustment Assistance	11.307	05-79-04733	299,950
Total Direct Awards			<u>\$ 360,950</u>
Indirect:			
Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Cerro Gordo County:			
Community Development Block Grant			
Program	14.228	08-DRH-202	\$ 866,078
	14.228	08-DRB-208	6,912
	14.228	08-DRH-002	183,625
			<u>\$1,056,615</u>
Department of Transportation:			
Iowa Department of Transportation:			
Urban Mass Transportation Technical			
Studies Grants:			
FHWA STP/SPR	20.205	13-RPA-02	<u>\$ 73,496</u>
Capital Investment Assistance Project	20.500	04-0117-020-12	<u>\$ 572,700</u>
Formula Grants for Other than Urbanized			
Areas:			
Non-Urban Operating Assistance Project	20.509	18-0030-020-13	\$ 344,523
FTA 5311 New	20.509	12-RPA-02	23,533
Total for CFDA Number 20.509			<u>\$ 368,056</u>
Project for Elderly Persons			
and Persons with Disabilities	20.513	16-X002-020-13	\$ 425,450
Job Access-Reverse Commute	20.516	37-X016-020-13	15,486
New Freedom Assistance	20.521	57-X008-020-12	17,954
New Freedom Operating Assistance	20.521	57-X002-020-12	38,004
			<u>\$ 496,894</u>
Homeland Security and Emergency Management:			
Hazardous Material Public Sector			
Training	20.703	HMEP	<u>\$ 2,300</u>
Total Indirect Awards			<u>\$2,570,061</u>
Total			<u>\$2,931,011</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of NIACOG and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

See Accompanying Independent Auditor's Report.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
North Iowa Area Council of Governments:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of NIACOG, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the Agency's basic financial statements, and have issued my report thereon dated November 7, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered NIACOG's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NIACOG's internal control. Accordingly, I do not express an opinion on the effectiveness of NIACOG's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified a deficiency in internal control I consider to be a material weakness and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of NIACOG's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings as item II-A-13 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NIACOG's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination

of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Agency. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

NIACOG's Responses to Findings

NIACOG's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. NIACOG's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of NIACOG during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script, appearing to read "Larry Pump".

Charles City, Iowa
November 7, 2013



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
North Iowa Area Council of Governments:

Report on Compliance for Each Major Federal Program

I have audited North Iowa Area Council of Government's (NIACOG's) compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on NIACOG's major federal programs for the year ended June 30, 2013. NIACOG's major federal programs are identified in Part I of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for NIACOG's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NIACOG's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe my audit provides a reasonable basis for my opinion on compliance for the major federal programs. However, my audit does not provide a legal determination of NIACOG's compliance.

Opinion on Each Major Federal Program

In my opinion, NIACOG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of NIACOG is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered NIACOG's internal control over compliance with the types of requirements that could have a

direct and material effect on the major federal programs to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of NIACOG's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified a deficiency in internal control over compliance I consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-13 to be a material weakness.

NIACOG's response to the internal control over compliance finding identified in my audit is represented in the accompanying Schedule of Findings. NIACOG's response was not subjected to the audit procedures applied in the audit of compliance, and accordingly, I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Larry Pump". The signature is written in a cursive, flowing style.

Charles City, Iowa
November 7, 2013

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were: CFDA Number 20.509 - Non-urban Operating Assistance Project, CFDA Number 20.513 Elderly Persons and Persons with Disabilities Project, CFDA Number 20.516 - Job Access-Reverse Commute, CFDA Number 20.521 - New Freedom Assistance Project, CFDA Number 20.500 - Capital Investment Assistance Project and CFDA Number 14.228 - Community Development Block Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) NIACOG did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, payroll and bank reconciliations are all done by the same individual.

Recommendation - I realize segregation of duties is difficult with a limited number of office employees. However, NIACOG should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. NIACOG should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2013

Part II: Findings Related to the Financial Statements: - continued

II-B-13 Post-dated check - I noted a check that cleared the bank on the day prior to the date the check was issued.

Recommendation - The Agency should avoid the use of post-dating checks.

Response - We will discontinue the use of post-dating checks in the future.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 20.509: Non-Urban Operating Assistance Project

Federal Award Year: 2013

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

CFDA Number 20.513: Elderly Persons and Persons with Disabilities Project.

Federal Award Year: 2013

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

CFDA Number 20.516: Job Access-Reverse Commute

Federal Award Year: 2013

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

CFDA Number 20.521 New Freedom Assistance Project

Federal Award Year: 2013

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

CFDA Number 20.500 Capital Investment Assistance Project

Federal Award Year: 2013

U.S. Department of Transportation

Passed through the Iowa Department of Transportation

CFDA Number 14.228: Community Development Block Grants

Federal Award Year: 2013

U.S. Department of Housing and Urban Development

Passed through the Iowa Department of Economic Development and Cerro Gordo County

III-A-13 The Agency did not properly segregate custody, recordkeeping and reconciling functions for revenues and expenses, including those related to Federal Programs. See audit finding II-A-13.

NORTH IOWA AREA COUNCIL OF GOVERNMENTS
Schedule of Findings
Year Ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Questionable Expenses - I noted certain expenses I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenses are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Walmart Community BRC	Greeting cards	\$ 12

According to the opinion, it is possible for such expenses to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation - The Board should determine and document the public purpose served by these expenses before authorizing any further payments. If this practice is continued, the Agency should establish written policies and procedures, including the requirements for proper documentation.

Response - The Agency has discontinued this type of transaction and does not allow it. Management will have the amount reimbursed to the Agency.

Conclusion - Response accepted.

IV-B-13 Travel Expense - No expenses of NIACOG money for travel expenses of spouses of NIACOG officials or employees were noted.

IV-C-13 Business Transactions - No business transactions between NIACOG and NIACOG officials or employees were noted.

IV-D-13 Bond Coverage - Surety bond coverage of NIACOG officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-E-13 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the NIACOG's investment policy were noted.

IV-F-13 Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.